

1972
annual report



THE BANK OF NORTH DAKOTA PHILOSOPHY

To encourage and promote agriculture, commerce and industry in North Dakota.

To provide the most efficient and economical financial service to the state, its agencies, and instrumentalities.

To provide professional assistance whenever possible and wherever it will encourage and promote the well being and advancement of North Dakota and its citizens.

The Bank of North Dakota is owned, operated and controlled by the State of North Dakota under the supervision of the Industrial Commission.

1972 INDUSTRIAL COMMISSION

William L. Guy
Governor, Chairman

Helgi Johanneson
Attorney General

Arne Dahl
Commissioner of Agriculture

H. L. Thorndal
President and Manager

1973 INDUSTRIAL COMMISSION

Arthur A. Link
Governor, Chairman

Allen I. Olson
Attorney General

Arne Dahl
Commissioner of Agriculture

H. L. Thorndal
President and Manager

TO THE CITIZENS OF NORTH DAKOTA:

The Bank of North Dakota has established a fine record of service to the citizens of the State in the more than 50 years since it was established. It has fulfilled on a yearly basis its purpose of encouraging and promoting agriculture, commerce and industry.

We can be proud of the continuing progress of the Bank of North Dakota and of its achievements during the past year.

As Chairman of the North Dakota Industrial Commission, the Bank's governing Board, I am looking forward to working with the Bank in instituting policies which will be beneficial to all the citizens of the State.

I am pleased that nearly all of the financial institutions in the State are utilizing the services offered by the Bank of North Dakota.

The Bank continues to be of public service through Federally Insured Student Loans, the purchase of home loans from other institutions to assist in increased new home construction, a farm ownership loan program in cooperation with the Farmers Home Administration, and many other programs.

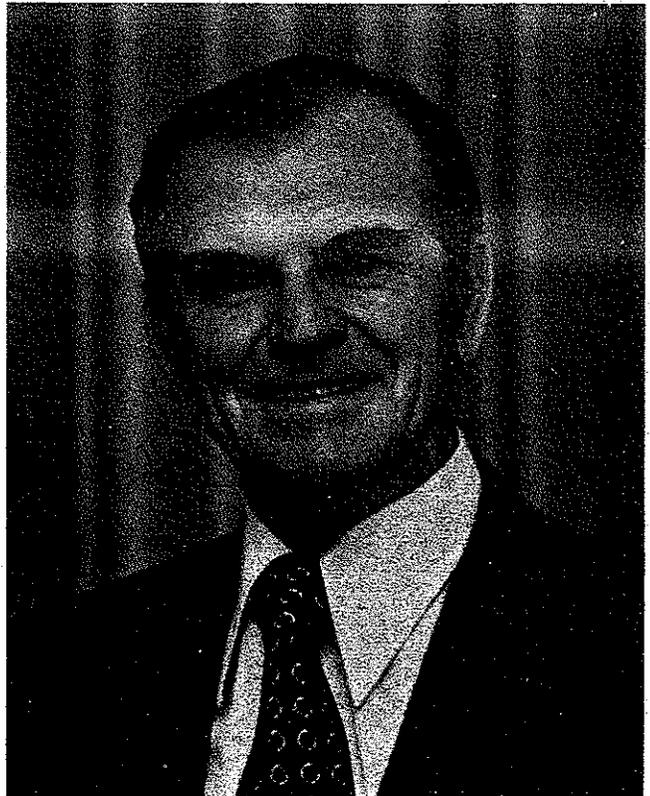
The Bank is a major source of loan funds for new industry under the Small Business Administration. Industry and other banks have benefited by the expert loan evaluations of the very competent Bank of North Dakota staff as every effort is made to finance new industry with other financial institutions participating. Needed backup service is provided by the Bank to political subdivisions to assure that bond issues are purchased and at the lowest interest cost possible.

The Bank continues to perform an ever increasing responsibility in state government, as well as to private citizens.

I urge you to read this report. Our State can be proud of the Bank of North Dakota's accomplishments in 1972, and its long record of public service.

Arthur A. Link

Arthur A. Link, Governor
Chairman of the Industrial Commission



**TO: THE NORTH DAKOTA INDUSTRIAL
COMMISSION**

The Bank of North Dakota proudly presents its record for 1972. The Bank surpassed all records, and 1972 was the most outstanding year in the Bank's 53 years of service to the people of North Dakota. Year end resources were up \$27,000,000 over the previous year, to \$204,695,710.73. The Bank reached an all-time high of \$211.6 million on March 9th. This is the first time that North Dakota has had a \$200,000,000 financial institution. The Bank's total resources exceeded \$200,000,000 for most of 1972. We anticipate substantial growth throughout 1973. Net operating earnings reached a new high of \$6,082,929.49, an increase of 25.7% over the record set in 1971. This brings the total earnings of the Bank, since its inception in 1919, to \$65,148,481.75. We anticipate earnings to be up in 1973.

I refer you to the comparative balance sheet, statement of earnings, reconciliation of capital accounts and the department's narrative in this report. Several programs were started in 1972, and others were expanded. Student loans continue to expand, and 95 financial institutions in the State took advantage of our secondary market program for these loans. The Bank has made 85 direct farm loans and plans to expand this program in 1973. Bank participation loans increased \$4,697,456.39, and we expect more North Dakota institutions to utilize this service in the ensuing year. Our Federal Funds (Excess Reserves) Purchase Program was instituted in April of 1972, and at year end, an average of 25 banks were using this program daily; and the Bank was averaging between seven and eight million dollars of Federal Funds purchased per day. Ten North Dakota banks opened correspondent accounts with the Bank of North Dakota in 1972. One hundred fifty-seven of the State's 168 banks maintain an account with the Bank of North Dakota. Check clearing activity reached an all-time high on November 8th, when 126,370 checks were handled.

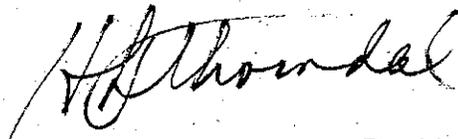
The remodeling of the interior of the Bank was completed, and Grand Opening was held from November 13th through the 17th. We were most pleased that so many of the Bank's friends from both within the State and distant financial centers attended our Grand Opening. A contract has been executed for renovating the exterior of the building and completion is expected by May 1, 1973.

Operating expenses in 1972, including interest on time money, has increased by \$532,138.12. We expect an increase in cost of money and over all operating expenses in 1973. However, we anticipate the total interest income to also increase, and will more than offset the additional costs.

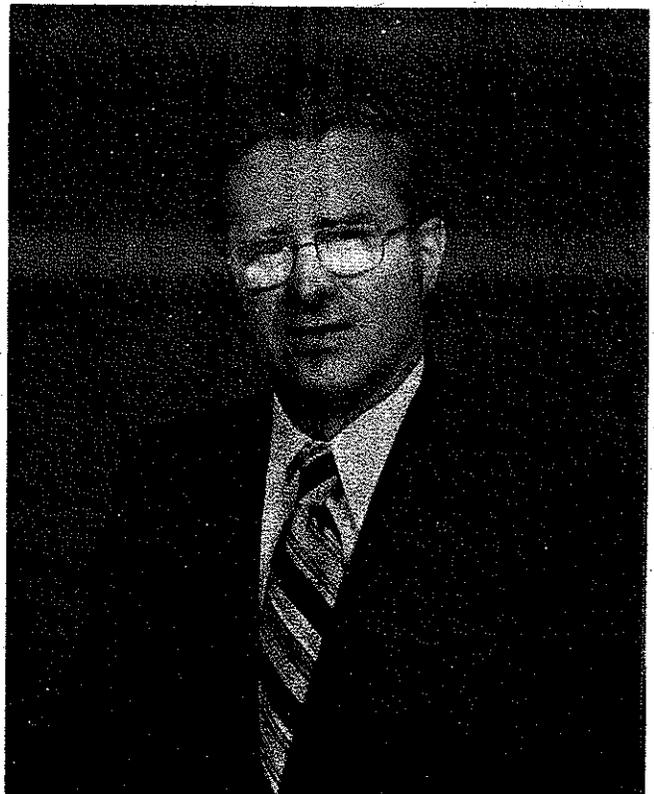
The Bank of North Dakota transferred \$4,000,000.00 to the Surplus Account from its Undivided Profits during 1972.

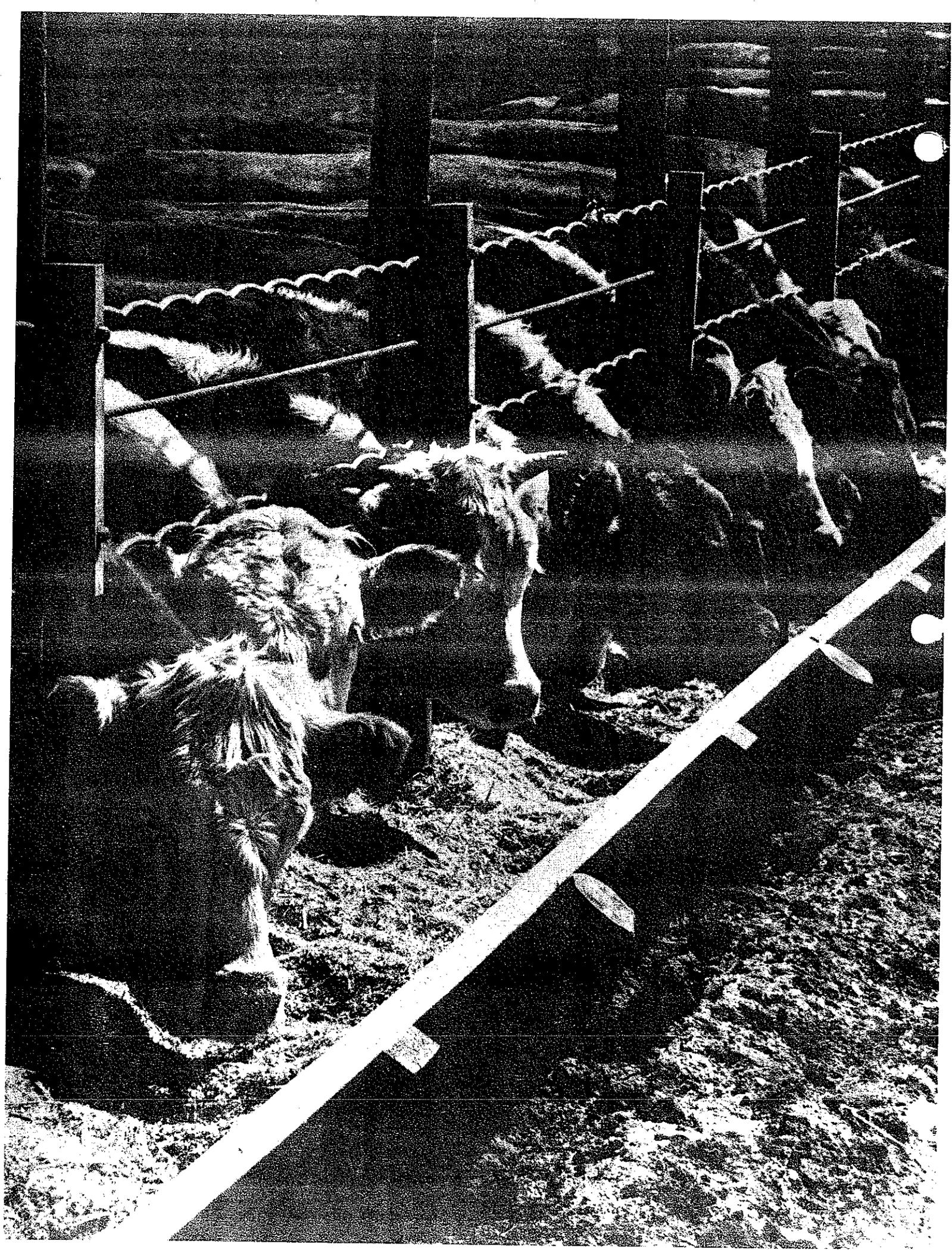
Robert A. Birdzell, General Counsel, reached mandatory retirement age, after 40 years of service, on December 31, 1972. Mr. James H. Kelly, Executive Vice President, resigned in June and accepted a position with another North Dakota financial institution. There were seven promotions within the Bank during the year. Ruben Sailer was promoted to Vice President and Cashier, LeRoy Gilbertson to Vice President, Allan Nosbusch to Auditor, John W. Fay to Asst. Vice President and Agricultural Finance Office, Shirley Homuth to Asst. Vice President, John A. Dewald to Asst. Vice President and Gail Vetter to Asst. Cashier.

We are looking forward to 1973 with confidence and enthusiasm, and will continue our dedication to be of service to North Dakota and its citizens.



H. L. Thorndal
President and Manager
Bank of North Dakota





AGRICULTURE AND AGRI-BUSINESS

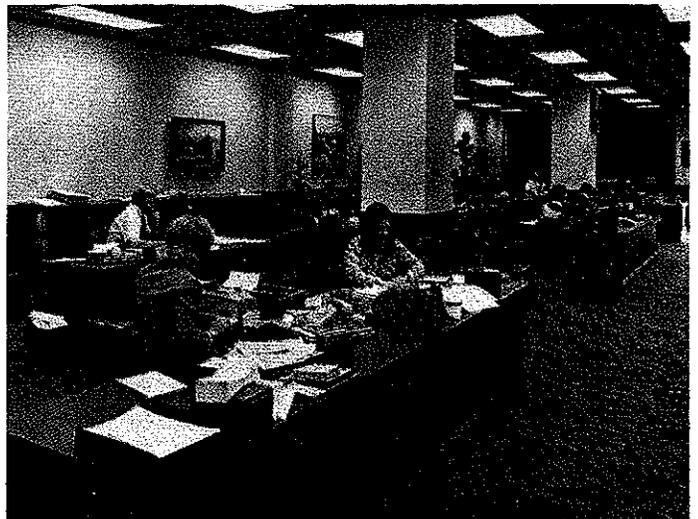
The 1971 Annual Report announced that the bank was to adopt a new approach towards agricultural lending. The ensuing programs met with outstanding success.

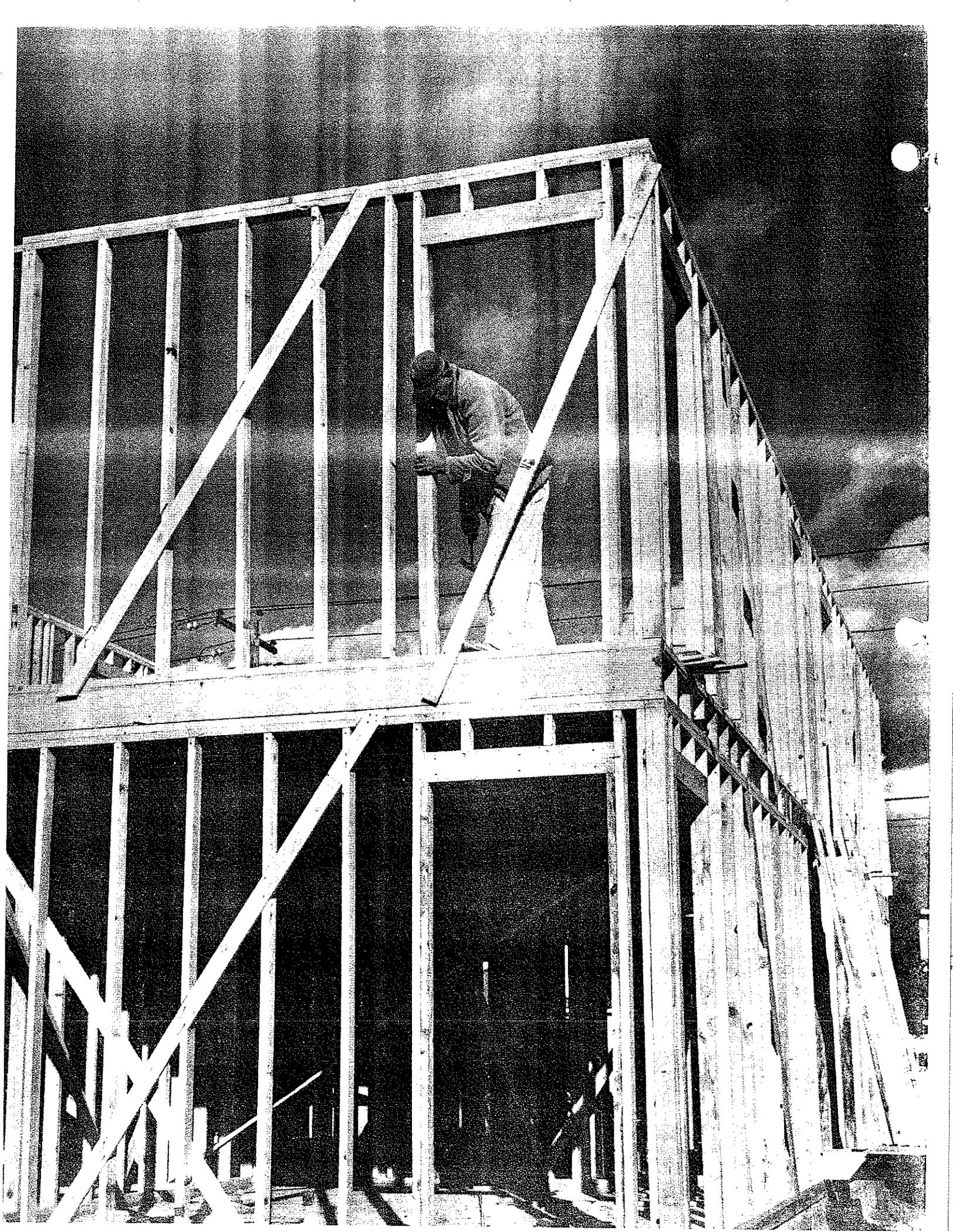
The Bank of North Dakota developed a program for land expansion and development in conjunction with the Farmers Home Administration. At year end, 85 farmers received commitments of \$1,294,500.

In April, the Bank of North Dakota started an ag-overline program. Approximately \$1,700,000 has been committed, primarily for cattle feeding operations.

The Bank of North Dakota has also extended \$1,440,900 to agricultural businesses such as bean processing plants, cheese factories, potato warehouse, grain storage, bird seed processing and potato grating and flaking plants. \$7,500,000 was also allocated for the Hillsboro and Wahpeton sugar beet plants.

Loans totaling nearly 9 million dollars were extended in 1972 to promote processing of North Dakota agricultural products.





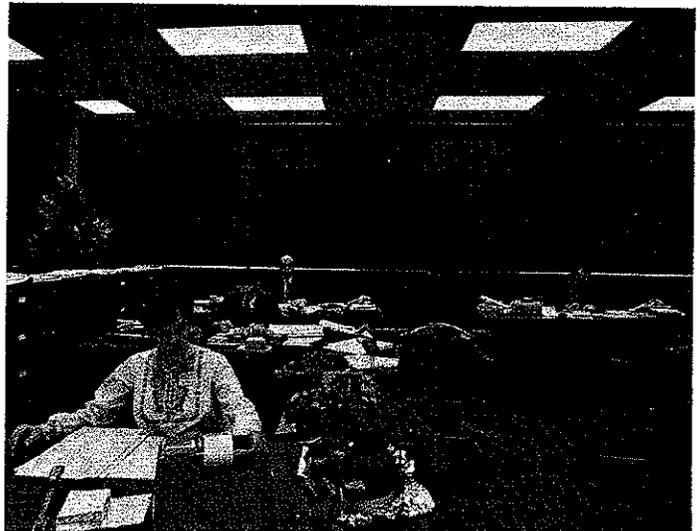
OTHER LENDING ACTIVITIES

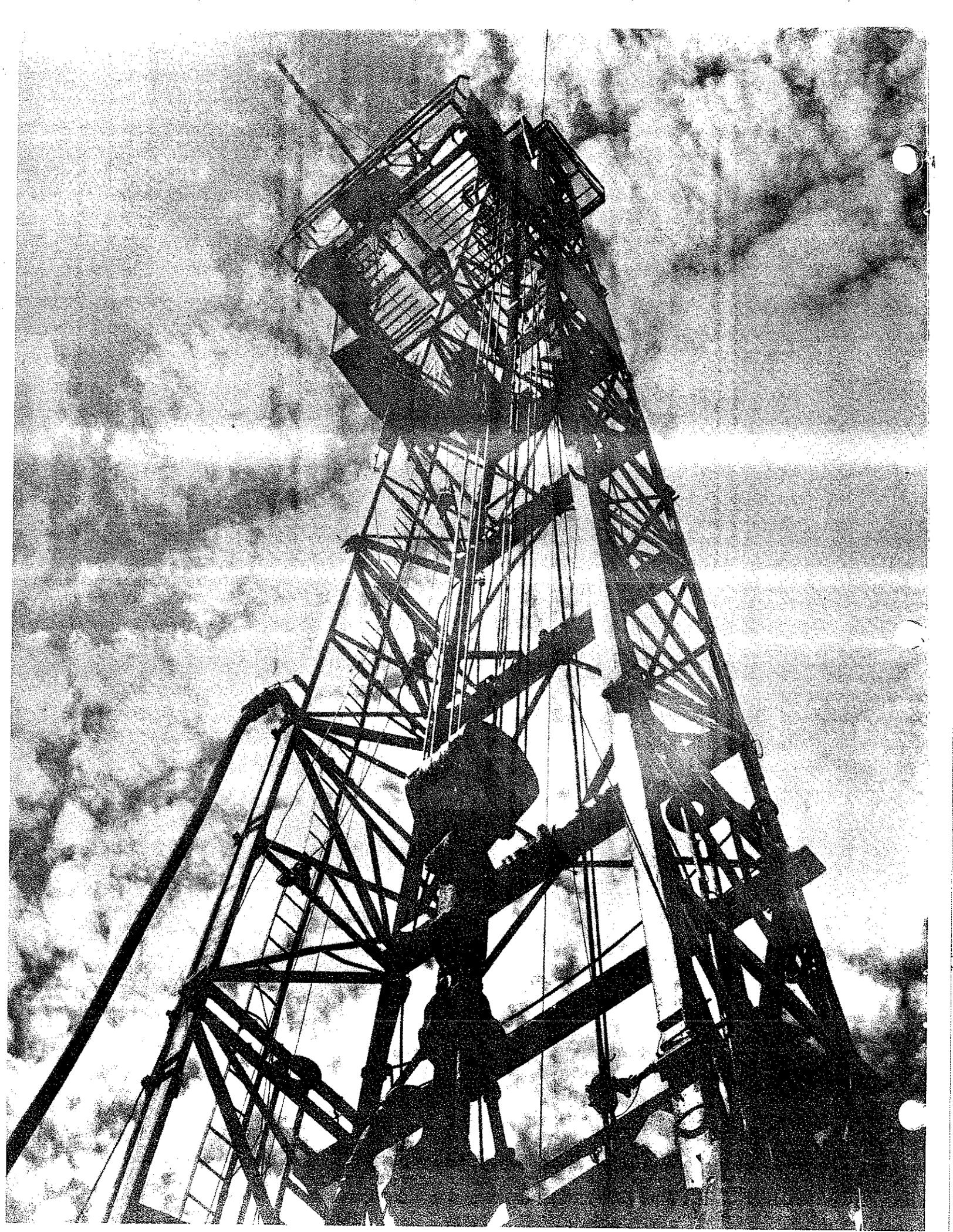
Late in 1971, the Bank of North Dakota set up a secondary market for single-family housing. This program increased the Bank's lending investments in single-family housing loans by \$10,200,000 in 1972. The Bank also committed \$2,090,000 in Multi-family projects and over \$2,200,000 in hospital loans and housing for the elderly.

In addition to housing loans, other loan activity reached an all time high in 1972. This was due to our ag-financing program and the expansion of our commercial lending policies.

By expanding commercial lending policies in construction, term and working capital loans, the Bank's investment in that sector of the State's economy increased by approximately \$12,800,000 to an all time high.

Expanded commercial lending policies accounted for a dramatic 12.8 million dollar increase.





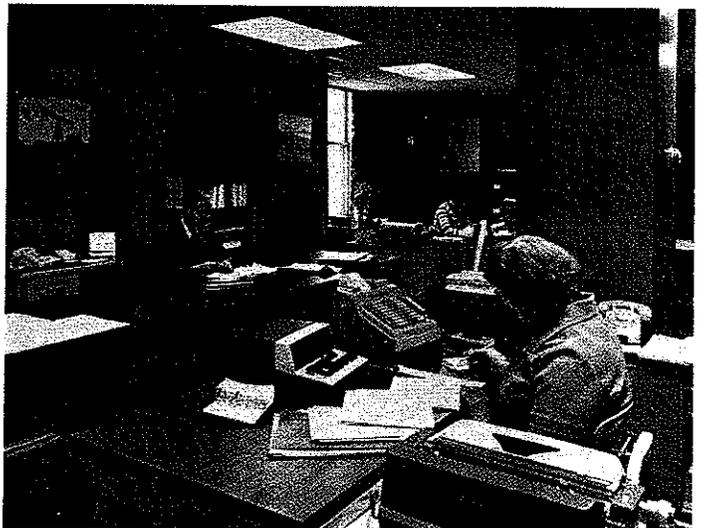
MINERAL LEASING DEPARTMENT

The total accumulated income from oil and gas activity passed the six million dollar mark in June, 1972. Income from oil and gas lease bonuses, delay rentals and royalties for 1972 was \$416,062.63 bringing the accumulated total to \$6,290,250.18 as of December 31, 1972. Of the 1,600,000 acres of land acquired by the State through the Bank loan program, only 468.2 acres of land are still owned. In addition approximately 750,000 reserved mineral acres are owned by the State of North Dakota.

This department manages the Bank's interest in the Judge A. M. Christianson Project at Burlington, North Dakota consisting of 30 purchase contracts, four rental units and some land near the project along the DesLacs and Souris Rivers.

The department services twenty-two GI farm loans with a year end principal balance of \$57,735.10. The principal balance on 15 loans from the Nursing and Home for Aged Revolving Loan Fund on December 31 was \$1,288,123.37. As agent for the North Dakota Rural Rehabilitation Corporation, the department made 48 (FHA subordinated) farm operating loans in a total principal amount of \$355,380.00.

Accumulated income from oil and gas activity approached 6.3 million dollars in 1972.





STUDENT LOANS

The Federally Insured Student Loan Program, as operating in the State of North Dakota is the envy of students and school officials in other states. North Dakota has become the leader in providing this assistance to its citizens through the leadership and participation of your Bank.

Since August of 1967, when the first loan in the United States of this type was made by the Bank of North Dakota, your Bank has processed more than 26,000 loans in an amount in excess of \$22,500,000 to North Dakota Students.

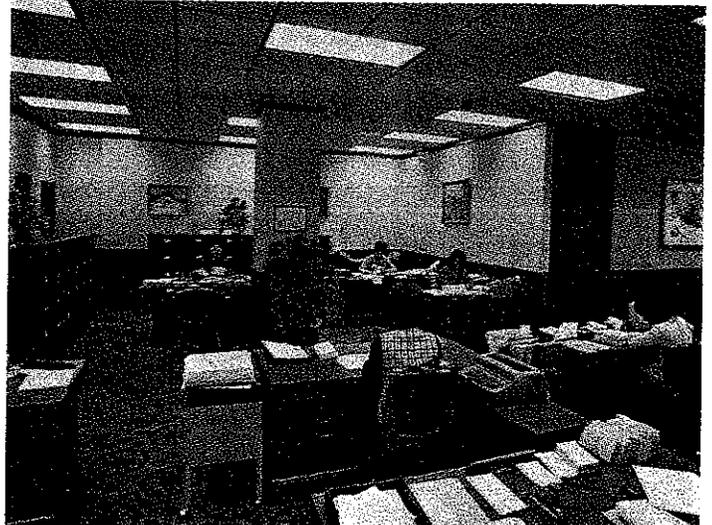
The secondary market for these loans established in 1971 has been well accepted by other lenders and has been instrumental in encouraging other lenders to continue to participate in this program. Ninety-five local lenders make use of this service on a regular basis.

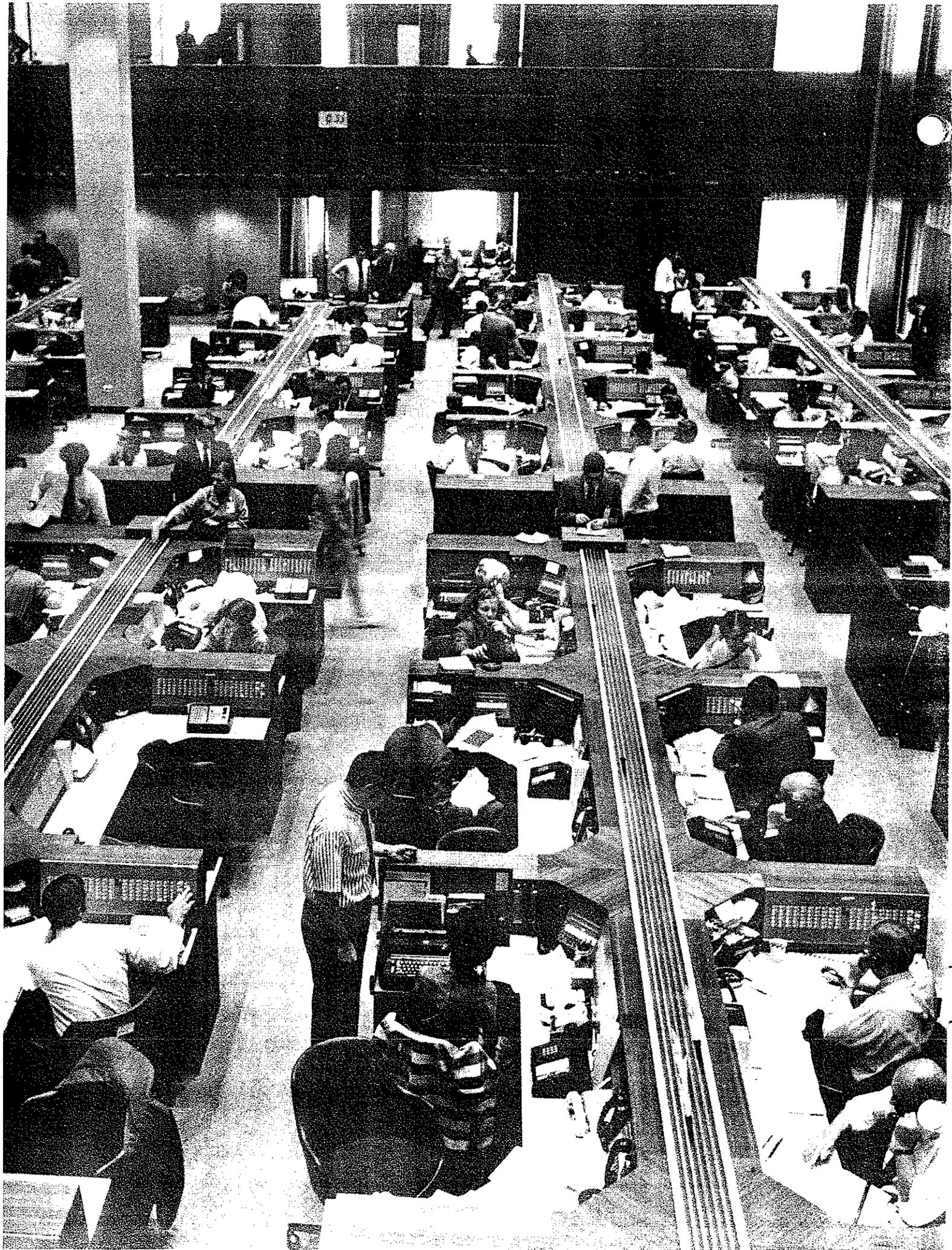
The goal of the Bank of North Dakota is to provide the leadership and participation necessary to insure no North Dakota Student will be denied the opportunity to further his education because of the lack of financial assistance. The fact that North Dakota ranks first in the nation in the availability of loans to students of college age is a direct result of your Bank's activity in this important and worthwhile program.

Seven thousand seven hundred of these loans have reached the repayment status. \$1,750,000 was received in payments this past year.

We are most happy to report that our default rate is among the lowest in the nation which attests to the character and responsibility of the citizens of the State of North Dakota, which your Bank has the privilege to serve.

7,700 of 26,000 Student Loans reach repayment status; default rate termed excellent.





BONDS AND SECURITIES

The Bank of North Dakota has established direct daily contact with every major financial center in the United States in order to provide full financial marketing services to correspondent banks, all state agencies, political subdivisions and municipalities and other governmental units in the State.

Smaller banks in North Dakota had new areas of investment opened to them when the Bank of North Dakota developed a program for both the purchase and sale of Federal Funds. Over two billion dollars were processed in this market during 1972.

North Dakota municipalities are assured of a fair marketable price for bond issues because the Securities Department maintains a primary market for all types of municipal bonds. The Bank currently holds \$16,000,000 in tax-exempt bonds which are available for purchase by any financial institution or individual interested in this type of investment.

The Bank of North Dakota purchased Board of Higher Education bonds totaling \$4.6 million, Municipal Bonds of \$13.5 million and is currently processing nearly \$3 million of Municipal Industrial Bonds for issue in early 1973. This not only creates new employment, but develops new industrial interests and income sources for our State.

The increased activity within the Securities Department reflects the general increase in Bank activity during 1972.

Sales of Municipal Bonds totaled \$7.415 million during the year.

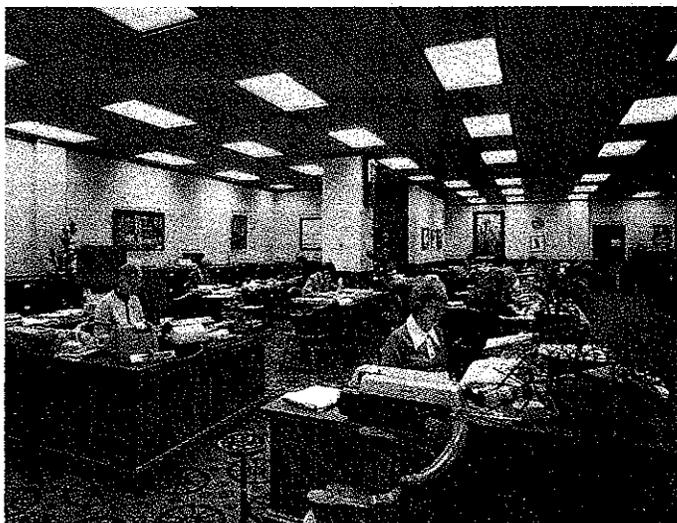
The Bank of North Dakota also manages the following funds:

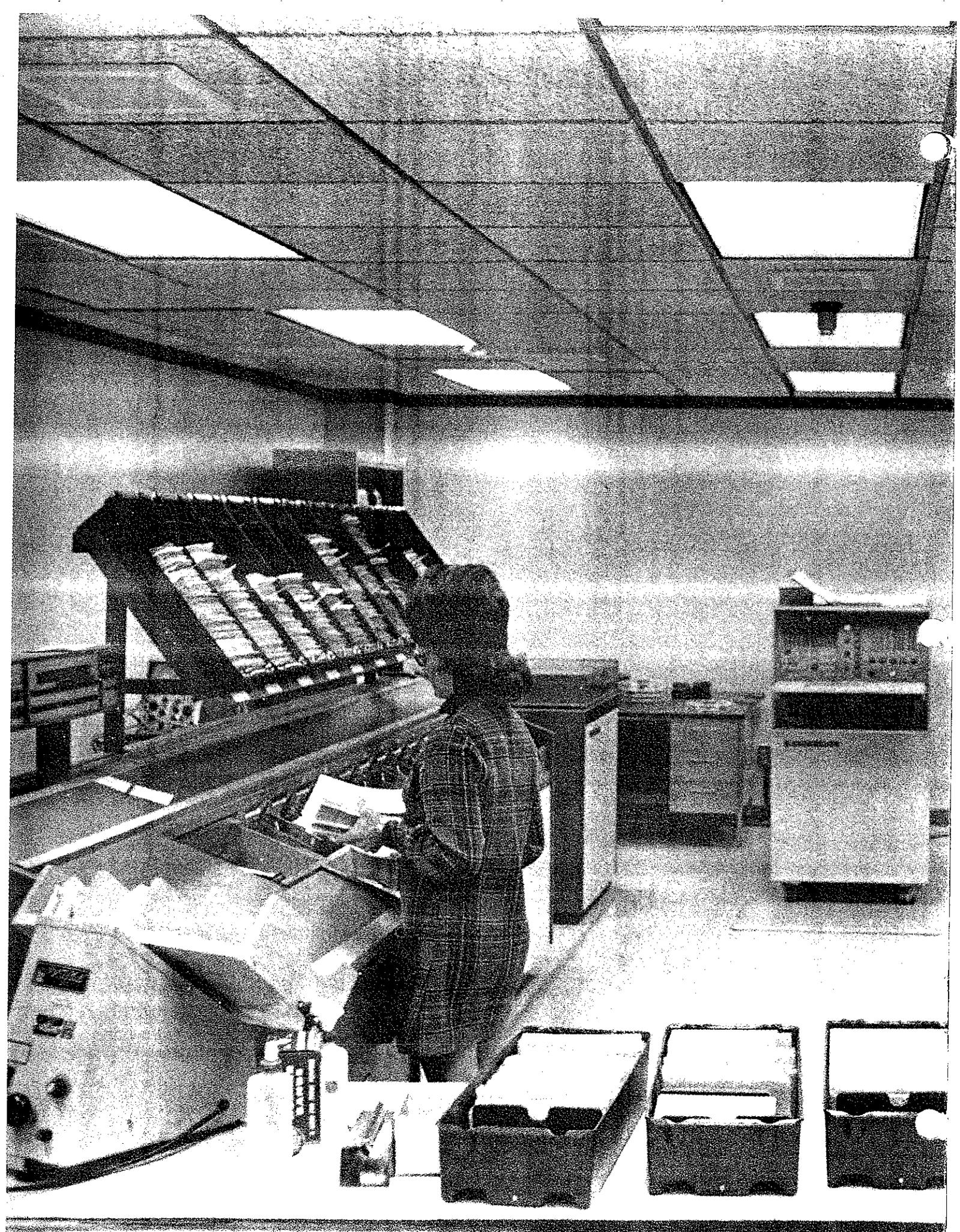
- North Dakota Teachers Retirement Fund
- State Bonding Fund
- State Fire & Tornado Fund
- Highway Patrol Fund
- Workmen's Compensation

Total value of the funds jumped to 84.5 million dollars compared to the 1971 year end total of \$68.1 million.

The securities transactions for the year totaled \$1,149,158,392.00.

1.1 billion dollars in securities transactions handled through the Bank of North Dakota in 1972.



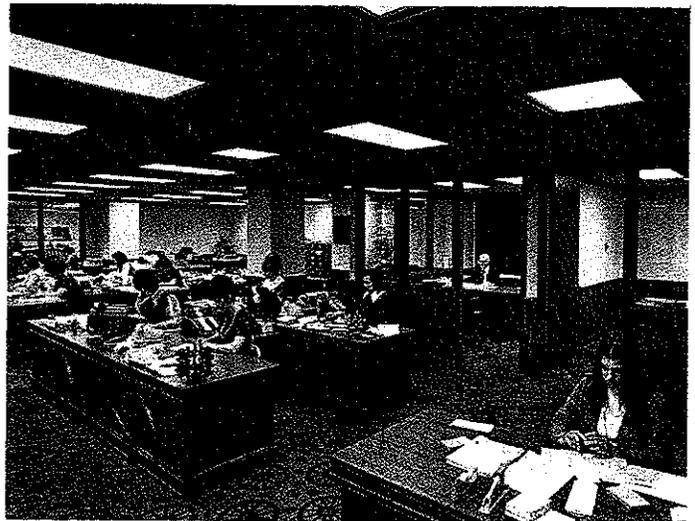


OPERATIONS DEPARTMENT

A tremendous increase has been shown in the activities of the Operations Department during 1972. Records indicate that 17,323,048 checks were handled by the proof, transit, and bookkeeping division of the department during the year. This is an average daily check total of 68,742 per day. The largest volume was on November 8, 1972 when 126,370 items were processed. We presently have 4,201 checking accounts of which 4,120 are considered active.

There have been considerable increases both in the number of North Dakota banks carrying accounts with us and the number of individual accounts carried at this bank. Handling the increased volume has been possible by installation of an on-site computer in the newly remodeled building. All proof work and transit check collection operations have been on our computer since February 2, 1972. Checking accounts were added as of April 1, 1972. Certificates of Deposit were added at a later date and programming is continuing for other bank operations.

The new computer made possible the Operations Department's busiest day when 126,000 checks were processed, nearly twice the daily average.



INDUSTRIAL COMMISSION

Arthur A. Link, Chairman
Governor

Allen I. Olson, Member
Attorney General

Arne Dahl, Member
Commissioner of Agriculture

OFFICIAL STAFF

H.L. Thorndal, President and Manager
D. C. Kierland, Vice President
R. E. Sailer, Vice President and Cashier
Charles F. Campbell, Vice President
LeRoy Gilbertson, Vice President
Martin Stenehjelm, Vice President
Ernest Pederson, Vice President
Robert A. Birdzell, General Counsel*
Allan Nosbusch, Auditor
Carl Arndt, Asst. Vice President
John W. Fay, Asst. Vice President and Agric.
Finance Officer
I. Jeannine Christy, Asst. Vice President
John A. Dewald, Asst. Vice President
Shirley Homuth, Asst. Vice President
Gail Vetter, Asst. Cashier

AUDIT DEPARTMENT

Allan Nosbusch, Auditor
Martha Huber, Asst. Auditor
James Franchuk, Asst. Auditor

LOAN DEPARTMENT

LeRoy Gilbertson, Vice President
John W. Fay, Asst. Vice Pres. and Ag. Fin. Officer
Gail Vetter, Asst. Cashier
Duane Wagner, Service Officer

LEGAL DEPARTMENT

Robert A. Birdzell, Gen. Counsel*

CASHIER'S DEPARTMENT

R. E. Sailer, Vice President and Cashier
Ila Eckroth, Head Teller

MANAGEMENT COMMITTEE

H. L. Thorndal, Chairman
D. C. Kierland
R. E. Sailer
LeRoy Gilbertson
Charles F. Campbell
Ila Eckroth
Martin Stenehjelm
Ernest Pederson

* Retired Dec. 31, 1972

ADVISORY BOARD

Eugene Rich, Chairman
Exec. V.P., St. Bank of Fargo
Richard Carley, Vice Chairman
Pres., Casselton St. Bank
Noel Fedje, Secretary
V.P., Dain, Kalman & Quail
Lloyd Everson, Member
Pres., Northern National Life Insurance Co
W. E. Koenker, Member
V.P., University of North Dakota

OPERATIONS DEPARTMENT

D. C. Kierland, Vice President
Carl Arndt, Asst. Vice President
Evelyn Zelmer, Chief Clerk

SECURITIES DEPARTMENT

Charles F. Campbell, Vice President
Shirley Homuth, Asst. Vice President
John A. Dewald, Asst. Vice President
Edward B. Sather, Settlement Desk
Eva Goetz, Invest. Secretary

STUDENT LOAN DEPARTMENT

Martin Stenehjelm, Vice President
I. Jeannine Christy, Asst. Vice President
Stella Van Dyke, State Scholarship

MINERAL LEASING DEPARTMENT

Ernest Pederson, Vice President
Teresa Martin, Bookkeeper

INVESTMENT COMMITTEE

H.L. Thorndal, Chairman
Robert A. Birdzell
LeRoy Gilbertson
Charles F. Campbell
John W. Fay
John A. Dewald

STATEMENT OF CONDITION

ASSETS	Dec. 31, 1972	Dec. 31, 1971
Cash and Due from Banks	\$20,544,473.72	\$13,217,599.70
U.S. Government Securities	14,153,599.75	17,420,792.15
Federal Agencies Securities	36,497,769.78	31,007,729.82
State and Municipal Securities	13,744,458.32	11,196,549.48
Bankers Acceptances & Other Investments	31,887,700.08	32,686,086.00
Federal Funds Sold	5,620,000.00	8,100,000.00
Loans:		
Farmers Home Administration Notes	18,158,159.58	19,685,604.02
Federally Insured Student Loans	20,289,566.17	15,195,049.60
GI & FHA Farm and Home Loans	26,722,943.45	17,945,632.55
Loans to State Institutions	1,016,095.56	236,374.10
Farm & Real Estate Contracts	174,273.30	185,671.50
SBA Guaranteed Participation Loans	3,812,131.31	4,008,187.92
N.D. Bank Participation Loans	9,779,149.97	5,081,693.58
Bank Premises and Equipment	2.00	2.00
Accrued Interest Receivable	2,295,387.74	2,103,474.97
Total Assets	<u>204,695,710.73</u>	<u>178,070,447.39</u>
LIABILITIES		
Demand Deposits:		
Individual, Partnership & Corporation	2,556,356.73	2,423,774.20
Deposits of Banks	5,938,581.03	8,087,245.33
U.S. Government	2,447,310.79	770,508.14
State Treasurer Account	44,314,607.29	31,178,117.19
Political Subdivisions	33,874,402.05	41,789,656.96
Cashier's Checks, etc.	335,479.26	389,043.53
Time and Savings Deposits:		
Individual, Partnership & Corporation	14,408,505.57	12,590,651.43
State Treasurer	43,033,236.00	36,592,636.00
Political Subdivisions	21,246,823.84	20,143,029.41
TOTAL DEPOSITS	<u>168,155,302.56</u>	<u>153,964,662.19</u>
Appropriation Due to State Gen. Fund (1)	1,625,000.00	4,875,000.00
Accrued Interest Expenses	578,077.61	729,453.93
Other Liabilities	10,280,698.82	104,949.20
TOTAL LIABILITIES	<u>180,639,078.99</u>	<u>159,674,065.32</u>
Reserves	2,672,628.58	2,716,395.84
CAPITAL ACCOUNTS		
Capital	2,000,000.00	2,000,000.00
Surplus	8,000,000.00	4,000,000.00
Undivided Profits	11,384,003.16	9,679,986.23
TOTAL CAPITAL ACCOUNTS	<u>21,384,003.16</u>	<u>15,679,986.23</u>
TOTAL LIABILITIES & CAPITAL	<u>204,695,710.73</u>	<u>178,070,447.39</u>

(1) The 1971 Legislature appropriated \$6,500,000.00 of the Bank's earnings to the State General Fund for the 1971 - 1973 biennium. This is payable in installments of \$1,625,000.00 each six months.

All securities are carried at par or cost, whichever is lower.

**"ALL DEPOSITS GUARANTEED BY THE STATE OF
NORTH DAKOTA"**

CONSOLIDATED STATEMENT OF EARNINGS

OPERATING INCOME	1972	1971
Interest on Loans	\$4,686,803.93	\$4,650,940.82
Interest and Dividends on:		
U. S. Treasury Securities	628,002.83	917,684.97
State and Municipal Securities	653,590.02	674,555.67
Federal Agencies and Other Securities	4,457,088.36	2,967,359.13
Interest on Federal Funds	313,202.24	120,523.92
Mineral Trust Expense Refund	23,925.00	23,300.00
State Scholarship Expense Refund	9,093.83	9,694.78
Fees, Charges, Rents & Other Income	<u>231,962.40</u>	<u>137,463.50</u>
TOTAL INCOME	\$11,003,668.61	\$9,501,522.79
Interest Paid on Deposits	\$4,031,060.04	\$3,721,607.62
Other Charge Offs and Recoveries	<u>4,092.85</u>	<u>-1,854.58</u>
Gross Income	<u>\$6,968,515.72</u>	<u>\$5,781,769.75</u>
Operating Expenses (Appropriated)		
Salaries	493,902.62	448,937.07
Retirement, F.I.C.A., Hospital Ins., OASIS	42,057.20	40,276.94
Fees and Services	152,423.93	118,189.48
Supplies and Materials	31,762.69	24,033.21
Equipment Purchased	97,759.78	13,184.48
Equipment Rental	<u>77,331.21</u>	<u>33,162.65</u>
TOTAL EXPENSES	\$ 895,237.43	\$ 677,783.83
Net Gain (or Loss) on Securities	<u>9,651.20</u>	<u>(264,657.24)</u>
NET OPERATING INCOME	<u>\$6,082,929.49</u>	<u>\$4,839,328.68</u>

RECONCILEMENT OF CAPITAL ACCOUNTS

	1972	1971
Balance at Beginning of Year (Capital, Surplus, Undivided Profit & Reserve)	\$18,396,382.07	\$19,881,953.41
ADDITIONS:		
Net Operating Income	6,082,929.49	4,839,328.68
Transfer of Judge A. M. Christianson Project (1)		674,569.24
Transfer to Surplus from Undivided Profit	4,000,000.00	1,000,000.00
Transfer to Reserve for Building and Land from Undivided Profit	400,000.00	
Other Additions	<u>21,087.44</u>	<u>8,155.88</u>
TOTAL ADDITIONS	\$10,504,016.93	\$6,522,053.80
DEDUCTIONS		
Transfer to North Dakota General Fund (2)		6,500,000.00
Transfer to Industrial Building Mortgage Trust (3)		500,000.00
Transfer to Surplus	4,000,000.00	1,000,000.00
Transfer to Reserve for Building and Land	400,000.00	
Reserve for New Building and Land (4)	443,767.26	7,625.14
TOTAL DEDUCTIONS	<u>\$4,843,767.26</u>	<u>\$8,007,625.14</u>
Balance at End of year	<u>\$24,056,631.74</u>	<u>\$18,396,382.07</u>

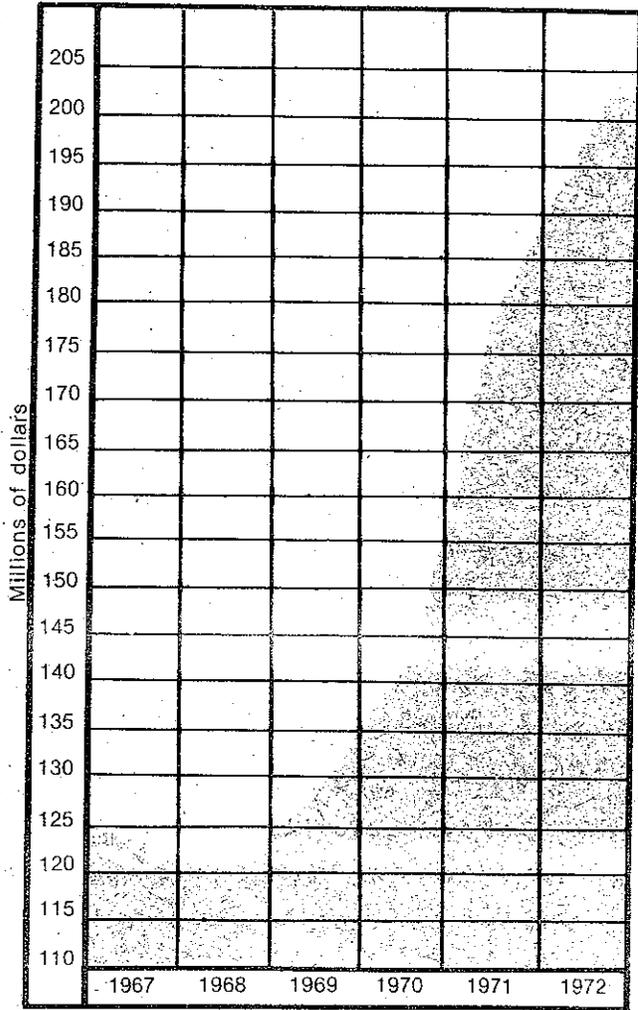
- (1) Judge A. M. Christianson Project transferred to the Bank of North Dakota by H. B. 1559.
- (2) Transferred to a liability account for the North Dakota General Fund from the Undivided Profit Account.
- (3) Transferred to Industrial Building Mortgage Trust by H. B. 1063.
- (4) Remodeling Expenses Paid.

INCOME

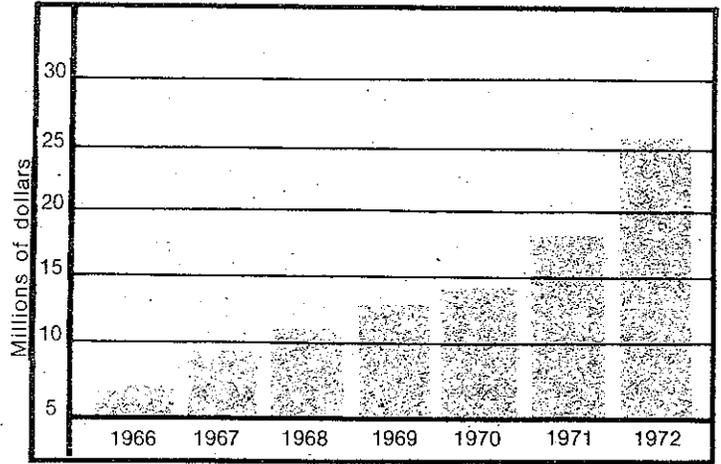
<p>FEDERAL AGENCIES AND OTHER SECURITIES</p> <p>43.4%</p>	<p>INTEREST ON LOANS</p> <p>42.6%</p>
<p>STATE AND MUNICIPAL SECURITIES 5.9%</p>	
<p>U.S. TREASURY SECURITIES 5.7%</p>	
<p>ALL OTHER INCOME 2.4%</p>	

EXPENSES and PROFIT

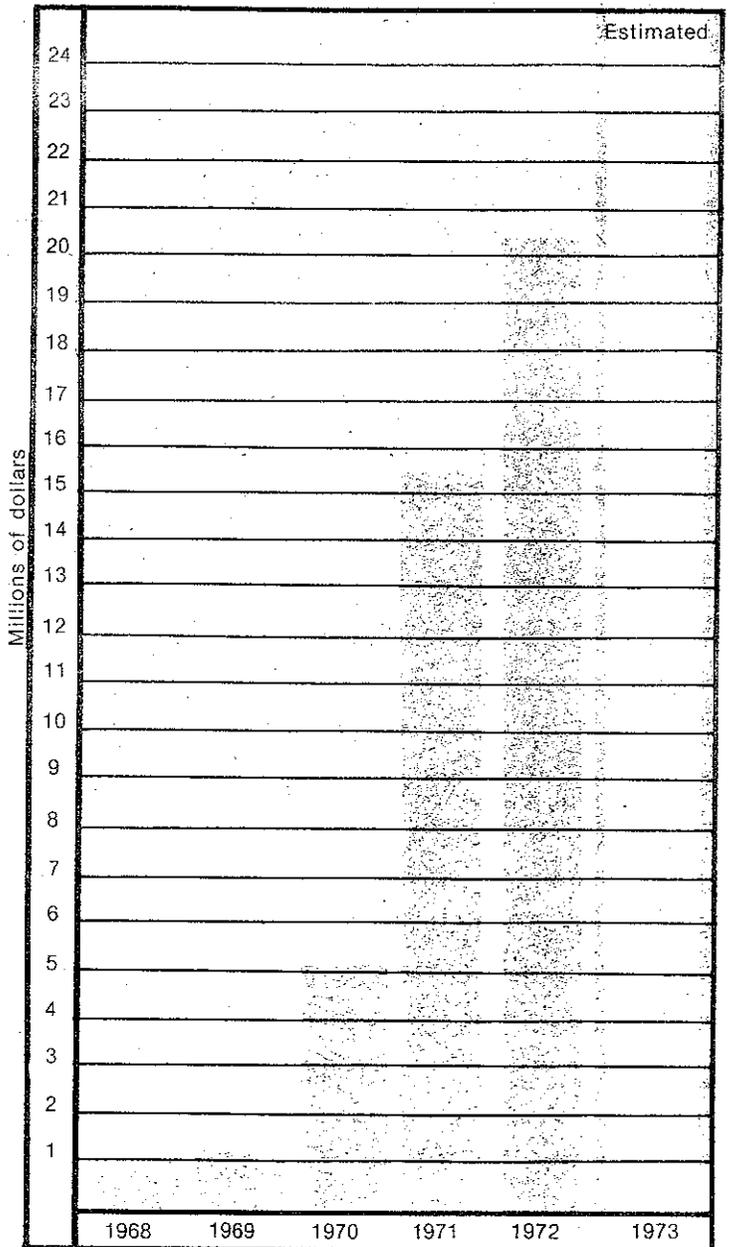
<p>PROFIT</p> <p>55.3%</p>	<p>INTEREST PAID ON STATE TREASURER'S ACCOUNTS</p> <p>21%</p>	<p>INTEREST PAID ON ALL OTHER DEPOSITS</p> <p>15.6%</p>	<p>SALARIES AND FRINGE BENEFITS</p> <p>4.9%</p>	<p>ALL OTHER OPERATING EXPENSES</p> <p>3.2%</p>
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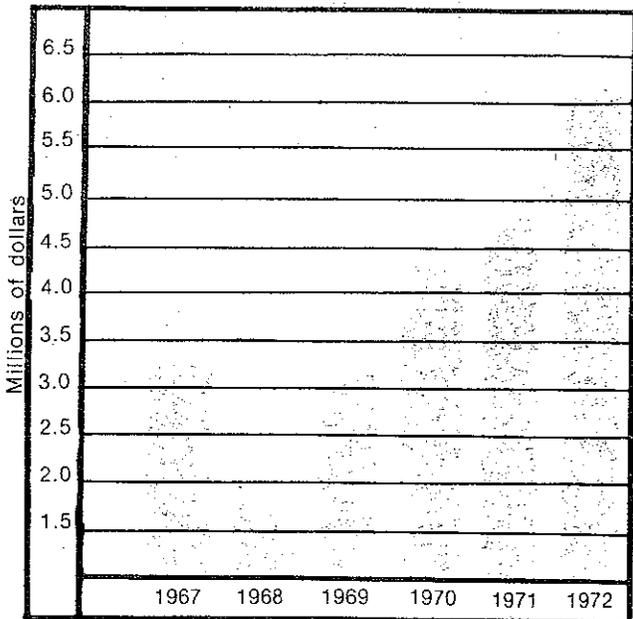
TOTAL RESOURCES



FARM AND HOME MORTGAGES VALUE



FEDERALLY INSURED STUDENT LOANS



NET OPERATING INCOME